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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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FAR EAST

South Vietnam's Provisional National Assembly will meet on 17 July to examine complaints which have been filed against eight presidential slates, including the Thieu-Ky ticket, that of General Minh, and of Au Truong Thanh, the self-styled "peace candidate." The assembly is unlikely to disqualify Thieu and Ky, but the outcome is uncertain in respect to General Minh. The government has laid the groundwork for the disqualification of Au Truong Thanh by charging him with a long history of pro-Communist activities. His name has also been linked to a group of alleged pro - Viet Cong intellectuals who were recently arrested in Saigon.

The intensity of the fighting between North Vietnamese forces and US Marines near the DMZ in northeastern Quang Tri slackened off after the heavy contacts last weekend, but intense enemy military bombardment of allied positions is continuing. In the central highlands, where signs of preparations for an offensive are noted, the Communists initiated several attacks against US patrols.

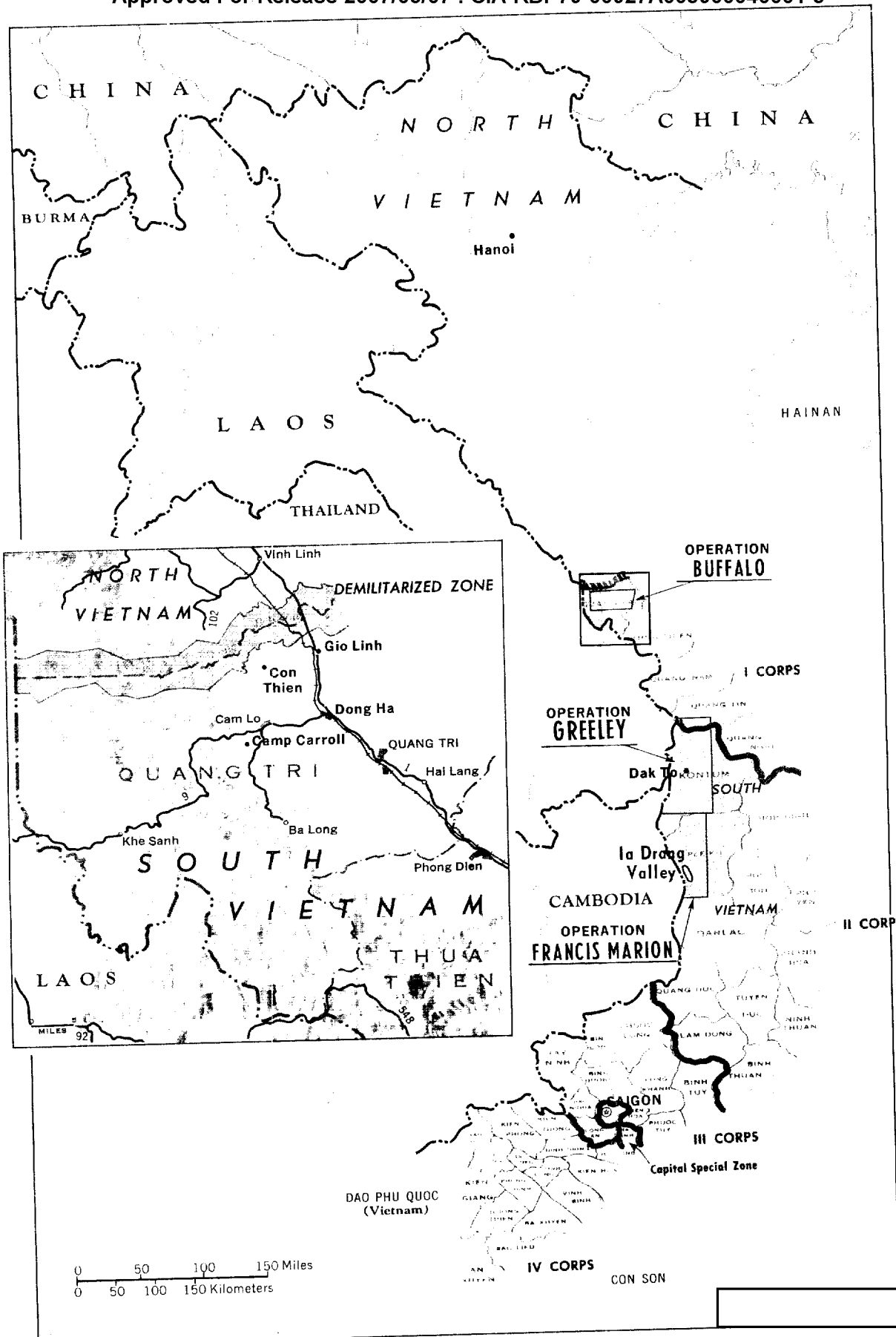
The death of General Nguyen Chi Thanh, North Vietnamese politburo member and top leader of the Communist structure in the South, was announced by Hanoi on 7 July. Thanh was a hard liner in the Communist leadership, and the choice of his successor might provide a clue to the relative strength of the moderate and militant factions in Hanoi.

Following last weekend's border incident, the Communists in Hong Kong have intensified their efforts to stir up mass disorders in the colony, including the use of terrorism. The British on 12 July for the first time in the current crisis employed army troops against local Communists. In Burma, although anti-Chinese rioting has subsided, Peking is maintaining diplomatic pressures which the Rangoon regime continues to resist. China's internal turmoil, meanwhile, appears to be spreading.

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VIETNAM

Heavy North Vietnamese Army (NVA) casualties resulting from a series of sharp encounters with allied forces could temporarily slow down Communist offensive operations in northeastern Quang Tri Province.

More than 550 Communist troops were killed near Con Thien during almost continuous contact on 8-9 July with US Marines of Operation BUFFALO, supported by well-coordinated allied air and artillery attacks. Since the fighting in the eastern DMZ area was stepped up on 2 July more than 1,100 Communist soldiers have been killed, in contrast to US losses of 159 killed and 884 wounded.

The frequency and intensity of contacts has declined in recent days, but there continued to be unusually heavy concentrations of Communist artillery, mortar, and rocket fire directed upon allied installations and positions in the Con Thien - Dong Ha - Gio Linh triangle area during the week. Large caliber rocket and artillery fire caused an increasing amount of damage to allied positions. There are unverified reports that Soviet-built 152-mm. artillery was used for the first time.

Stepped-up bombardments of Gio Linh have brought about

virtual suspension of civil government functions and caused the relocation of the district headquarters in another area. The US long-range 175-mm. artillery has been moved from Gio Linh southward to new positions near Dong Ha and Camp Carroll.

In the central highlands, there are signs that NVA forces subordinate to the Communist B-3 Front are increasing their military activity in western Kontum and Pleiku provinces.

Near Dak To, in western Kontum Province, elements of the 173rd Airborne Brigade, participating in the sweep operation GREELEY, suffered 75 casualties as a result of a sharp two-and-one-half-hour battle on 10 July. The attacking enemy force, a well-disciplined and well-armed unit, was probably subordinate to the NVA 24th Regiment which conducted a similar attack against US troops in the same area in late June.

Farther south in southwestern Pleiku Province, infantrymen of the US 4th Division, participating in border-surveillance operation FRANCIS MARION, were attacked on 12 July by a Communist force--almost certainly comprised of units of the NVA 1st Division.

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DRV Politburo Member Dies

On 7 July Hanoi reported the death of politburo member Nguyen Chi Thanh. This is the first case of attrition within the inner circle of the North Vietnamese leadership since the Communists took control of the DRV in 1954. Thanh was recognized as one of the party's most outspoken militants and was a close ally of Party First Secretary Le Duan. He had been directing the war in the South for at least the past two-and-one-half years.

Any one of several North Vietnamese general officers already in the South could be chosen to replace Thanh in his military role, but it will take another politburo member to assume his political functions. Although several other politburo members have had experience in the South, Hanoi may choose to divide up Thanh's responsibilities among several men.

Thanh's death could also pose even larger problems for the 11-man politburo--believed to be evenly divided between militants and moderates with Ho Chi Minh standing above both groups as final arbiter. Ho's age and health add to the uncertainty. If Ho should become incapacitated a struggle for power could ensue between the militants and moderates, led by

Le Duan and Pham Van Dong respectively. It would be important to each faction to fill the opening caused by Thanh's death to strengthen its own weight in the politburo before Ho passes on. The politburo could be expanded by one or more members and those chosen may provide some hint as to the relative strengths of the two factions and their supporters.

Election Developments in Saigon

Election officials have begun final processing of candidates for South Vietnam's presidential and senatorial elections on 3 September. The Provisional National Assembly will meet on 17 July to examine complaints which have been officially filed against potential candidates.

Complaints have been filed against eight slates, including those of Generals Thieu and Ky, retired General Duong Van Minh, and civilian Au Truong Thanh, former economy minister in Ky's cabinet. The complaint against Chief of State Thieu and Premier Ky--that both should be disqualified because they have not resigned their official positions--is not likely to be heeded, but those against Thanh and Minh will probably arouse considerable debate in the assembly.

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Thanh is accused of having Communist connections; Minh is regarded as a threat to national security by the generals who filed the complaint against him; and Minh's running mate, Tran Ngoc Lieng, is charged with being ineligible because of his former French citizenship. The assembly's actions on these charges cannot be predicted with any certainty, but it is more likely to disqualify Thanh than to accede to the generals' wishes by eliminating Minh's ticket.

A total of 60 senate slates, including 600 candidates and 78 alternates, are under review by the Central Election Council, with final approval or disapproval of the slates to be made by 22 July. It is possible that as many as one third of the lists will either voluntarily withdraw or be eliminated before 3 September, when voters will elect six of the ten-man slates. Four slates have already dropped out because their dossiers were incomplete.

Some government officials regard the large number of slates as excessive. Premier Ky told an American observer on 2 July that

he believes the senate will be a disorganized, ineffective body because the voters have no meaningful list from which to choose qualified candidates. According to Ky, Foreign Minister Tran Van Do and Deputy Premier Nguyen Luu Vien have commented that the number of slates demonstrates the fallacy of expecting democracy to work effectively in Vietnam today.

Ky, however, apparently intends to do his best to try to influence the senate's composition. 25X1

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COMMUNIST PRESSURE CONTINUES IN HONG KONG

Mounting terrorist activity and new efforts to stir up mass disorder in Hong Kong indicate that the Communists are determined to keep pressure on the colony's authorities. Peking's behavior suggests, however, that the Chinese Communists are not seeking a showdown with the British at this time.

The fire fight between Hong Kong police and Chinese Communist militia at the border village of Sha Tau Kok on 8 July is the most serious incident thus far. Five police officers were killed and at least eleven were wounded when they attempted to turn back a mob of Chinese demonstrators which had crossed the frontier. Order was restored only after a battalion of Gurkhas were moved into the area.

Chinese Army officers were observed inspecting the area on 6 July and, while the clash was in progress, a Chinese Army battalion was moved up piecemeal to the frontier. Peking's reaction and other circumstances surrounding the incident strongly suggest, however, that it was planned and executed by Chinese Communist authorities at the provincial level or below without explicit orders from Peking.

The lack of organization in the riots which subsequently occurred in a further indication

that the local Communists were not forewarned.

Peking's 9 July official protest was guarded, contained no threat of reprisal, and generally indicated that the Chinese did not intend to build on the incident.

Frustrated over the failure of their strike tactics, the Communists in Hong Kong are now stepping up hit-and-run terrorist activity, probably intended as a new test of British resolution in coping with the situation. In a raid on 12 July against a Communist center, army troops were employed against the Hong Kong Communists for the first time in the current crisis.

The strikes and public disorders have not as yet inflicted serious damage to the Hong Kong economy, but business has been hurt. Key government and banking officials contend that a long period of calm will be required before local Chinese businessmen will undertake major new investment. The Communists could attempt to put further pressure on the economy by trying to tie up harbor facilities.

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BREAKUP OF SUBVERSIVE NET HAVING REPERCUSSIONS FOR SOUTH KOREA

South Korean heavy-handed tactics in exposing and breaking up a widespread Communist espionage ring have caused criticism abroad and could intensify the political infighting within the regime at home.

Students are predominant in the ring which also involves South Korean professors and journalists in Seoul as well as in Europe and the US. The members apparently came under Communist influence while abroad and some were given training in Moscow and Pyongyang. They were given the mission of indoctrinating South Korean youth with Communist ideology, thus providing a base for the eventual Communization of South Korea. The clumsy tactics used by South Korea's CIA to persuade many of the accused to return to Korea has generated a storm of public criticism and official concern in West Germany and France.

West German press stories asserting that a number of missing Koreans have been kidnaped and forcibly returned home by South Korean agents have resulted in public protests by the leaders of all three major German political parties. West German authorities have privately indicated to US officials that they are not satisfied with the explanation given by the South Korean Embassy. Bonn has demanded the recall of three South Korean embassy officials and may yet demand an official apology from Seoul.

Seoul may be in for greater trouble in France, where an official investigation is also under way. Relations have been cool since 1965 when Paris objected to Seoul's decision to send troops to Vietnam, and have suffered recently when France agreed to allow Pyongyang to establish a trade delegation in Paris. They could deteriorate further, if Paris concludes that French sovereignty has been violated by Korean actions in France.

In Seoul, enemies within the regime of the CIA director are likely to use the embarrassment caused to the nation to try to force his removal. He and other high officials, including the prime minister, have been attacked by the chairman of the government party, Kim Chong-pil, for irregularities in the recent national elections. The CIA chief may be planning to parry the attack by linking some of Kim's group to the Communist espionage ring.

North Korean propaganda is linking the breaking of the espionage ring to the recent upsurge in violent clashes between South Korean security forces and armed Communist agents as symptoms of discontent in the South. These agent incidents are portrayed as reflecting a growing indigenous movement against the Pak Chong-hui government and the arrests as cover for an effort by Pak and the US to suppress this growing discontent.

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DISORDER INSIDE COMMUNIST CHINA

Violence and disorder appear to be spreading in China, while the regime is still unaccountably reluctant to use force to end the fighting. The political goals of contending forces--composed mostly of student Red Guards, workers, and peasants--remain as obscure as ever.

The west China province of Szechwan, and Hupeh and Honan in central China have been in a state of political turmoil since the frenzy of the Cultural Revolution was renewed in April. In recent weeks outbreaks of fighting have also been reported, for the first time in the current phase of the Cultural Revolution, from many cities in east, north, and northeast China.

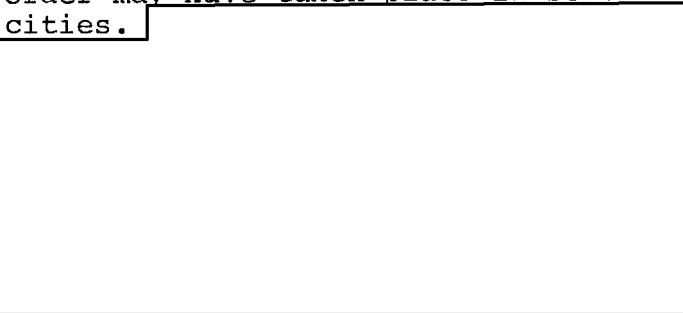
movers in campaigns conducted against local party and military leaders in several provinces. There is no evidence yet, however, that these detachments are being called back or restrained in any way.

The disorderly activities of these and other militant groups continue to disrupt industrial production and rail traffic. In early July, a Peking poster described a fight between Red Guards and workers at the Anshan steel mill--the largest in China--and another poster quoted Minister of Public Security Hsieh Fu-chih as saying that industrial production "declined further" in April and May.

In the present emotional atmosphere, a claim made by the New China News Agency on 7 July that the summer harvest was ten percent larger than in 1966 probably is not meaningful. The claim was issued as evidence of the effectiveness of Mao's thought and the Cultural Revolution. It is doubtful, moreover, that Peking has good crop statistics for all of China.

Nevertheless, since weather has been reasonably good, an improvement on the poor 1966 crop is probable. The regime may, however, have difficulty in procuring and distributing the harvest--whatever its size--because of growing indiscipline among peasants, and transport and trade workers.

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A serious breakdown in law and order may have taken place in some cities.



An announcement by Peking on 11 July that college students are to return to their institutions to "resume classes and make revolution" could be an effort to curb militant Red Guard organizations which have been responsible for much of the fighting in the provinces. Red Guard detachments from universities in the capital have been the prime

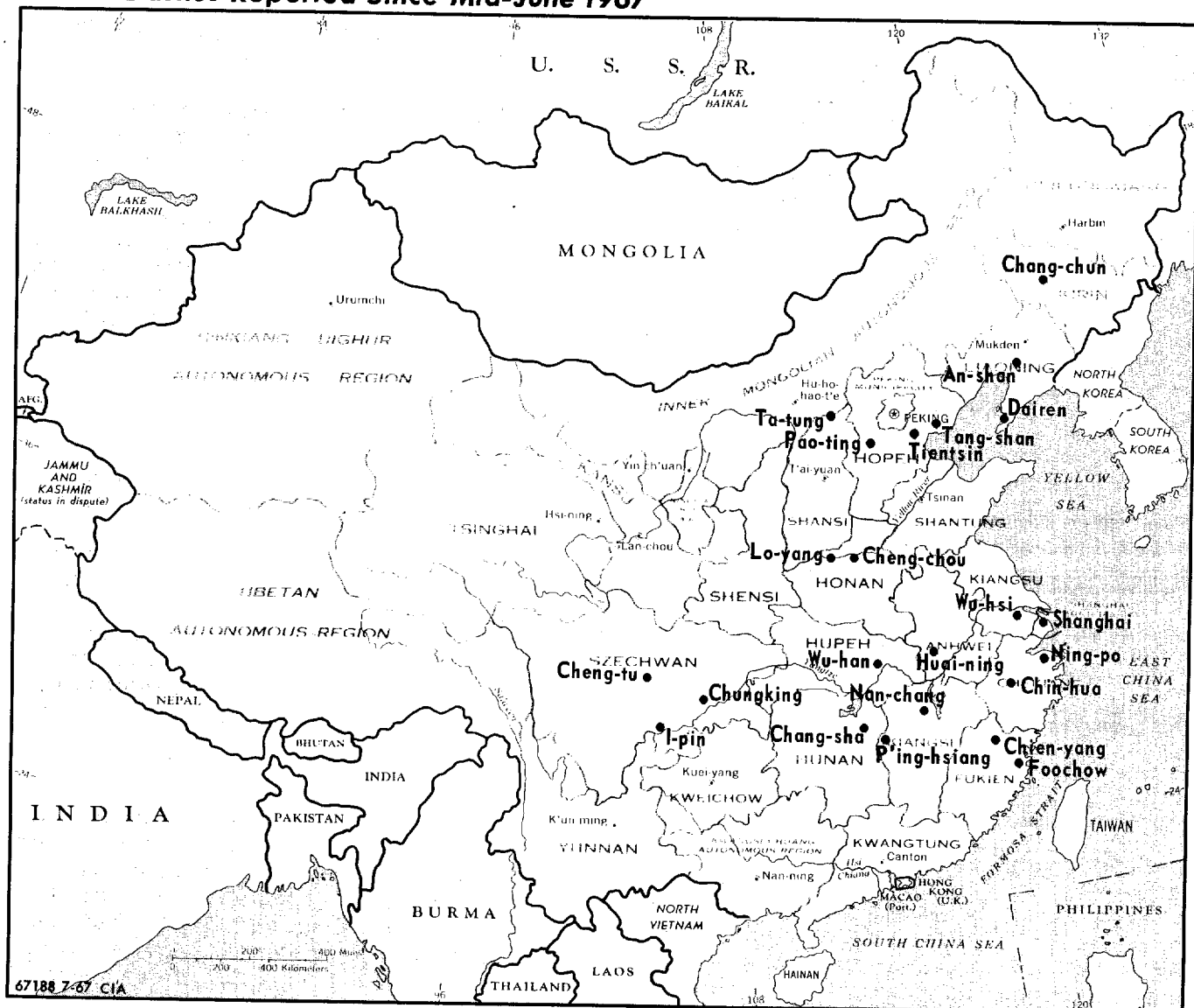


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Violent Clashes Reported Since Mid-June 1967



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EUROPE

Premier Pompidou's five-day visit to the Soviet Union this week maintained the momentum of high-level exchanges between Paris and Moscow, thus preserving the image of a "special" Franco-Soviet relationship. There are no indications, however, that either side was forthcoming on the major issues--the nonproliferation treaty and European security.

The communiqué issued at the visit's end was concerned primarily with efforts of both sides to broaden bilateral relations, stressing that the Franco-Soviet detente not only has a positive influence on the political situation in Europe but also serves as a model for relations between other nations on the continent.

The Soviet hierarchy dealt a further blow to the career of Aleksander Shelepin, once considered a leading candidate for future party leadership. His appointment as the chief of the Soviet trade union organization all but completes his political neutralization, a process which has been under way for many months. During this period a number of his political allies, including the former KGB chief, have been transferred to relatively powerless positions. There is no evidence that Shelepin's demotion stems directly from differences over Middle East policy, as was the case with the recently fired Moscow party chief.

In Bonn, Chancellor Kiesinger has won his colleagues' reluctant approval of an austerity program that provides for cuts in defense spending and in social welfare outlays. Just how the defense cuts will be implemented evidently has not been decided, but a study now being made is expected to recommend a reduction in troop levels and delays in new procurement.

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HIGH SOVIET LEADER DEMOTED

The appointment of politburo member Aleksander Shelepin as head of the Soviet trade unions marks a further setback for him. This move all but completes his political neutralization, a process that began in late 1965. It apparently was brought on by the combination of policy differences between Shelepin and a majority within the politburo on a wide range of issues and the long-standing rivalry between Shelepin and party boss Brezhnev.

There is no evidence that Shelepin's demotion stems directly from the split between "hawks" and "doves" over Middle East policy, as was the case in the recent firing of Moscow party chief Nikolay Yegorychev, a "hawk."

He is believed, however, to hold views similar to those reportedly expressed by Yegorychev at the June plenum of the central committee, and differences within the politburo over the proper course of action during or as a follow-up to the crisis may well have speeded up the move against Shelepin.

During the first year after Khrushchev's ouster there were reports that Shelepin was challenging Brezhnev for the party leadership. Since late 1965, however, Shelepin has been transferred to progressively less important assignments. The last year and a half have been

marked by Shelepin's giving up his deputy premiership, the dissolution of his powerful committee of party and state control, the passing over of several of his protégés for important posts, the removal of a number of his closest allies from pivotal positions, and the whittling down of his position in the secretariat--the party's executive arm. Shelepin will almost certainly lose his position in the secretariat, and, although he will probably remain, at least for a time, on the policy-making politburo, his influence on the formulation of national policy will be reduced because his new duties will keep him occupied with everyday labor problems.

The demotion of Shelepin, follows the removal of two of his closest allies--KGB chief Semichastny and Moscow party boss Yegorychev--and their replacement by men generally more moderate in outlook. This attack on the Shelepin group, in turn, would appear to weaken the position of other hard-line elements in the party. The views of these other hard liners, however, still cannot be ignored by the politburo. Moreover, the regime has been signaling those who would take advantage of the reverses suffered by the Shelepin group to press for more "liberal" domestic policies that the time is not ripe for such activities.

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WEST GERMAN AUSTERITY PROGRAM MAY FORESHADOW DEFENSE CUTS

The Bonn coalition government has developed a financial plan designed to keep its budget in balance over the next four years. In the process it has given notice that West Germany will probably reduce its defense establishment.

In several long cabinet sessions on 4, 5, and 6 July, Chancellor Kiesinger apparently overrode objections though not without a struggle which could portend further trouble. Kiesinger had earlier underscored the importance of the budget planning sessions both for the government and for his own political future by postponing his scheduled visit to Washington.

Defense Minister Schroeder waged a hard but losing fight against cuts in defense spending. According to a cabinet announcement on 7 July, reductions in defense spending will range from \$500 million in 1968 to a high of \$640 million in 1970.

Just how the defense cuts will be implemented evidently has not been decided. A reduction in troop levels and delays in new procurement are expected to be prime recommendations of a study Schroeder is to undertake. Initial press reports of a probably 40-60,000-man reduction have been attributed to Defense Ministry sources trying to generate opposition to the defense cuts.

In the traditionally heavy social welfare programs, family allowances were reduced and most benefits to war victims and refugees were frozen at present levels. A wide range of tax relief measures were dropped from government plans, and business and personal taxes were raised.

Kiesinger admits that his program will be politically painful. At present, he has the backing of his cabinet and the approval of both the Christian Democratic and Social Democratic forces in the Bundestag. Parliamentary action awaits the autumn Bundestag session, and pressures to restore cuts, especially in the sensitive area of social welfare, are likely to mount during the summer.

Kiesinger's hardest task may be to win the understanding of Germany's NATO allies, who are already pointing out that any German troop cuts should be subject to NATO review. The German press anticipates renewed pressures in the US and Britain for a reassessment of allied troop levels in West Germany. Bonn may still be hopeful that a reduction of Western forces could bring reciprocal cuts by the USSR and its East European allies. In a recent public statement, Foreign Minister Brandt seemed to invite a Soviet response by referring to mutual troop reductions as a vital part of a European detente.

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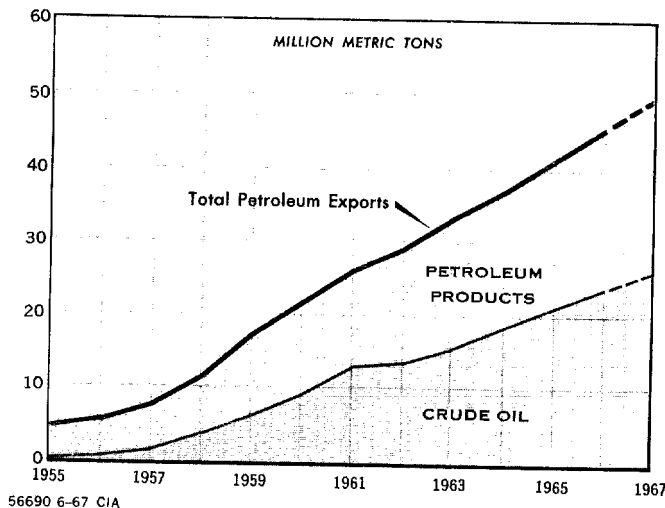
COMMUNIST PETROLEUM EXPORTS TO THE FREE WORLD

The USSR's and Eastern Europe's petroleum sales to non-Communist countries probably will reach a record high in 1967, about 50 million tons. Sales in 1966 were nearly 46 million tons, valued at about \$570 million. The Soviets apparently are taking advantage of the Middle East crisis by making additional crude oil available to their customers in Western Europe. The Soviets have not yet attempted to compete with Arab countries by using the crisis to gain new customers in the West. The Soviet ability to sell oil in Europe is small, be-

cause of limited availability, compared to West Europe's needs. The value of the sales to the USSR is important, however, because of the hard currency value.

Larger quantities of Soviet oil were reportedly sold to West Germany, Italy, Spain, and Switzerland, and a representative from the Soviet Ministry of Petroleum is scheduled to arrive in Vienna shortly to discuss an increase in deliveries beyond the current 750,000-ton contract. Several British companies have requested a review of Britain's embargo on Soviet oil. London is unlikely to relax its embargo on crude but may add such products as naphtha to the list of permitted Soviet imports.

**COMMUNIST EXPORTS OF PETROLEUM
TO THE FREE WORLD
1955-67**



Last year, an estimated 74 percent of the USSR's and Eastern Europe's petroleum exports went to Western Europe, meeting about eight percent of its requirements, about the same proportion as in 1964 and 1965. There was a slight decline last year in the amounts exported to the less-developed countries. Brazil, Greece, India, the UAR, and Ceylon were the principal buyers. Imports continued to meet a high percentage of needs in Iceland (99 percent), Finland (83 percent), Ghana (76 percent), and Afghanistan (75 percent). Except for Finland, however, the quantities of oil imported were not large. Of the 46 million tons of petroleum exported from the USSR and Eastern Europe in 1966,

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the USSR accounted for 39 million, or all of the crude oil--about 24 million tons--and 15 million tons of petroleum products. A rising trend in the share of crude oil in total exports probably will persist for at least two or three more years, as additions to Soviet refining capacity will continue to lag behind the annual increases in output of crude oil. Petroleum exports have been a major source of foreign exchange for the USSR, an estimated \$480 million in 1966, and have helped pay for modern

equipment and technology for industrial development.

The USSR's prices for petroleum to Western Europe, in general, are comparable to world market prices. The value of Soviet exports has not increased as rapidly as the volume during the past few years because prices have declined gradually and because the share of crude oil in total exports has risen. Shortages caused by the Middle East crisis, however, could change this picture.

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MIDDLE EAST - AFRICA

In the aftermath of the hostilities, the radical and moderate Arab states are still at odds over whether to move toward negotiations with Israel. Algeria and Syria are the firmest opponents, while King Husayn of Jordan continues to urge some sort of an Arab-Israeli understanding. Husayn may, after having exhausted all means of getting unified Arab action, decide to go it alone and come to terms with Israel, thus inviting renewed enmity of the radical Arabs.

The weak coalition government in India's West Bengal still totters along. The local Congress Party claims it has enough votes to topple the government but hesitates to force a vote of no confidence because such action could cause widespread popular unrest and unify the warring Communist factions. New Delhi does not want to intervene for the same reasons.

In Africa, the war between secessionist Biafra and the federal government in Nigeria continues. The federal forces have met with unexpected stiffness from the Biafran Army.

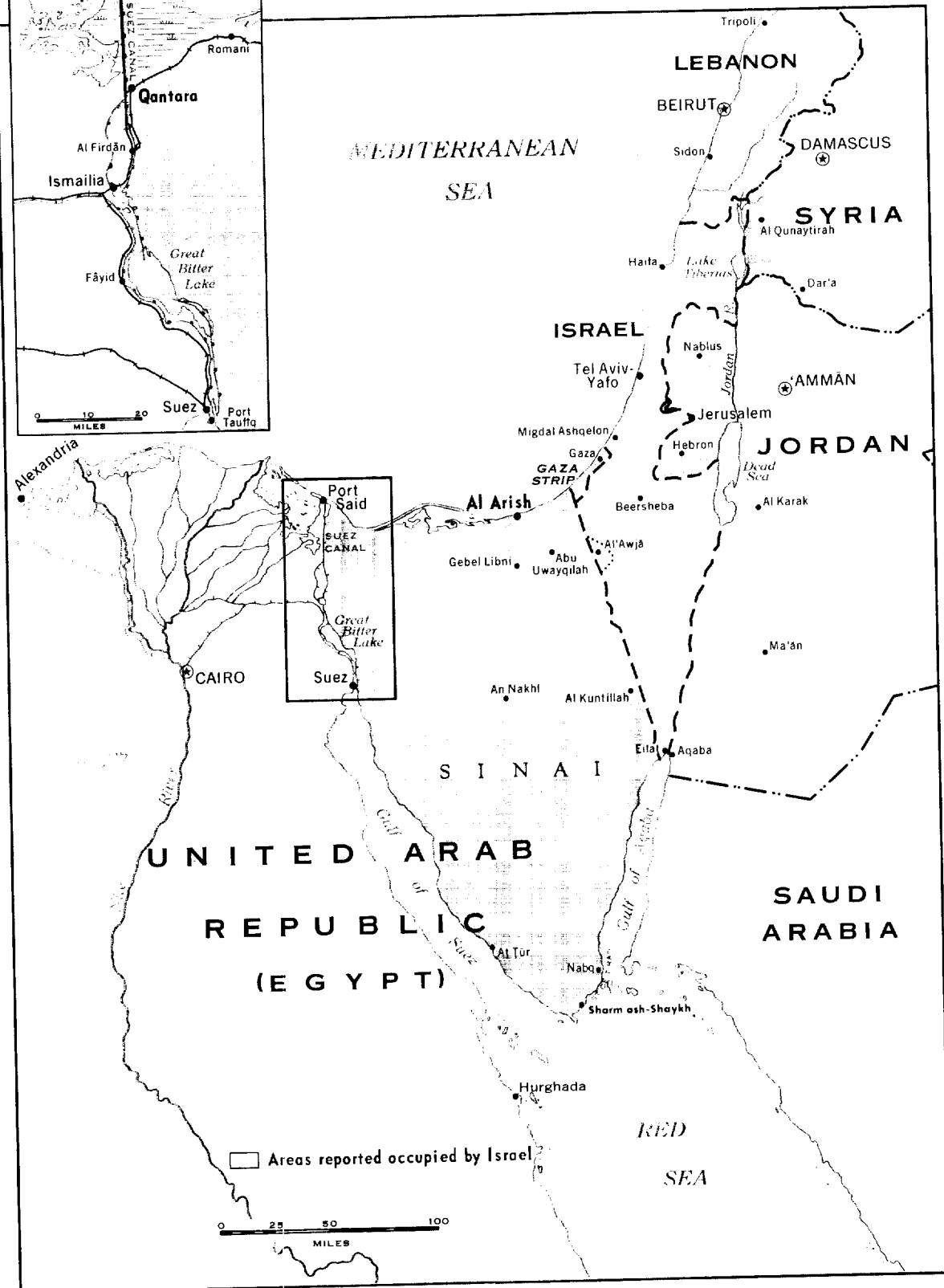
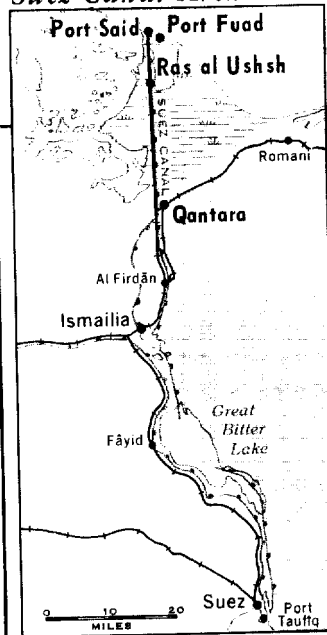
Northeast Congo (Kinshasa) remains in some disorder in the wake of last week's mutiny of foreign mercenaries. The mutiny has severely strained the Congo's tenuous stability. If the European technicians carry out their threat to leave, the subsequent shutdown of the copper mines would have a devastating effect on the economy.

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Suez Canal Area



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DEVELOPMENTS CENTERING ON THE MIDDLE EAST

Arab States - Israel

Radical and moderate Arab leaders remain divided after a series of meetings in Cairo and Damascus over whether to move toward a settlement with Israel. Continuing clashes between Egyptian and Israeli forces, meanwhile, still do not appear to presage a resumption of major hostilities.

Algeria and Syria are the firmest opponents of any show of moderation. Boumediene, Nasir, and King Husayn met in Cairo on 10-11 July but evidently were unable to reach an accord. Boumediene's talks later in Damascus with Syrian leaders ended with a statement indicating the two governments are intent upon resisting any pressure to compromise.

Nasir, Boumediene, Syrian President Atassi, and other Syrian Baath officials and Iraqi President Arif met again in Cairo on 13 July. Sudanese Premier Mahjoub reportedly may join them on 14 July. King Husayn, who met earlier in the week with Nasir and Boumediene, clearly was not to be at this latest conference.

Husayn's hasty mission stemmed from his failure to promote an Arab summit meeting to formulate a unified and relatively moderate Arab position on steps toward a settlement with Israel. The Algerians reportedly have strong misgivings about a full-

scale summit. They fear Husayn and other moderates would form the majority. Egypt and Iraq had favored such a conference but now are unlikely to support it with much vigor in the face of Algerian and Syrian opposition.

Husayn probably will have to decide whether he can move toward a unilateral settlement with the Israelis without bringing the hostility of the radical Arabs to an intolerable level.

The clash between Egyptian and Israeli forces along the Suez Canal on 8 July was the largest of several engagements since the 8 June cease-fire. Egyptian artillery apparently opened fire on Israeli positions at Ras al Ushsh, where a number of less serious incidents occurred the previous week. The resulting battle ranged from Port Said and Port Fuad at the northern end of the canal south to Qantara, and involved aircraft, tanks, and heavy artillery. The Israelis announced their casualties were five killed and 31 wounded. The number of Egyptian casualties is not known; a MIG-21 was shot down.

The Israelis claim their anti-aircraft shot down an Egyptian SU-7 over Sinai on 11 July and that they destroyed two Egyptian torpedo boats in a naval engagement near Al Arish the following day.

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Soviet Activity

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Soviet naval forces in the Mediterranean have been showing the flag in the Middle East to demonstrate Moscow's support of the Arab states. Eleven warships put into Alexandria and Port Said on 10 July for a week's visit. The Soviet admiral commanding the Mediterranean fleet announced that his ships were "ready to cooperate with the Egyptian armed forces to repel any aggression." The Soviets took no action, however, when two Egyptian torpedo boats were sunk by the Israelis the next day.

The airlift of military equipment, which now appears to have ended, probably consisted primarily of fighter aircraft deliveries. Egyptian, Syrian, and Iraqi inventories of fighter aircraft probably now approach the prewar level of 365, 80, and 89 respectively.

United Nations

At the General Assembly which reconvened this week, attention focused on Jerusalem. UN members were dismayed at Israel's refusal to comply with the Assembly resolution calling on Tel Aviv to rescind all measures which would alter the status of Jerusalem. Pakistan has introduced a new resolution--which has a good chance of being passed--which deplores the failure of Israel to cooperate, calls again on Israel to rescind all measures, asks the Secretary General to inform the Assembly and the Security Council on the situation, and requests that the Council take all necessary measures to implement the resolution on Jerusalem.

Most delegations would like the Assembly to end on a "positive" note, but realize the difficulty of bridging the gap between the unsuccessful Yugoslav and Latin American resolutions of last week. Attempts at drafting a compromise are nonetheless still being made. The Spanish delegate in particular has been pushing a proposal

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which calls for Israeli withdrawal, asks all parties to refrain from the use of force, and requests the appointment of a special representative of the Secretary General. Despite the delegates's vigorous campaigning, however, a number of members remain opposed.d

Another compromise developed by the Mexican delegation in consultation with the nonaligned and Latin American groups declares that peace in the Middle East must be made for all time, upholds the

principle that the territorial conquest by war was inadmissible and that therefore Israeli withdrawal "is expected," declares that the sovereignty and territorial integrity of the Middle East states must allow them freedom from threats of belligerency, and requests the Security Council to continue examining the situation. The proposal reflects continuing dissension in the ranks of the Latin American bloc which was a key element in the defeat of the Yugoslav resolution last week.

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MERCENARY REBELLION IN THE CONGO

The mutiny of foreign mercenaries and some Katangan troops in Congo (Kinshasa) has caused considerable havoc in the northeastern sector. The rebels held part of Kisangani (formerly Stanleyville) until 12 July, when they broke out and headed southeast by truck. Bukavu has been the scene of much disorder since the Congolese Army (ANC) returned. Racial incidents have somewhat diminished elsewhere in the country, but tensions are still high.

The mutinies on 5 July were led by approximately 150 white mercenaries, who were restive because they had not been paid for several months and hearing rumors that the government planned to disband their

units. They apparently needed only the news of former premier Tshombe's kidnaping to spark their mutiny. With assistance from disaffected Katangan units of the ANC they quickly took Bukavu and much of Kisangani including the airport.

On 7 July, however, the rebels at Bukavu withdrew from the city and proceeded toward Kisangani. Congolese units at Kisangani pushed the rebels there back to the airport and its environs. One planeload of wounded mercenaries--including the commander--escaped and flew to safe haven in Rhodesia. The remaining rebels broke through ANC lines on 12 July and may be headed either south toward Katanga or southeast toward Bukavu. They may still hold white hostages, including some Americans.

When the rebellion broke out, Mobutu declared a state of emergency, closed all borders, rescinded civil liberties, and urged citizens to keep "foreigners" under surveillance. Antiwhite sentiment rose throughout the country. In Lubumbashi (formerly Elisabethville) ANC troops killed nine Europeans on 6 July, and in Bukavu at least 11 people were murdered after the ANC recaptured the city. There was harassment of Europeans and wide-scale looting in other areas.

The mutiny has severely strained the Congo's tenuous stability. If European technicians, particularly the Belgians, carry out their threat to leave, they could force a shutdown of the Katanga copper mines and cause a devastating effect to the Congo's economy.

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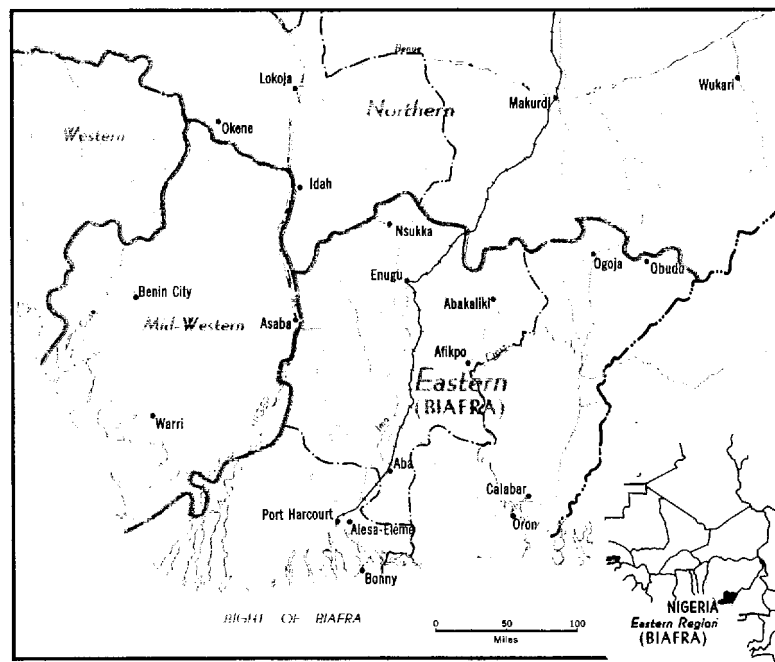
FEDERAL INVASION OF BIAFRA ENCOUNTERING STIFF RESISTANCE

Nigerian federal military forces have made only a little headway in their week-old drive to regain control of Biafra, the secessionist Eastern Region. Contrary to federal expectations, Biafran resistance to superior federal firepower has been stubborn, and both sides have reportedly suffered numerous casualties.

On 7 July, Maj. Gen. Gowon ordered federal troops along the northern border of Biafra to begin a full-scale attack along two main routes toward Enugu. Probes

across the border had begun on 6 July.

Fighting has thus far been confined to the Nsukka and Ogoja areas. In the Nsukka area about four battalions of federal forces, supported by artillery and armored cars, have captured and destroyed at least two Ibo villages just inside the border. Federal forces reportedly may also be on the verge of capturing the key junction at Nsukka and its related road network.



Scene of Nigerian Civil War

Boundary of former region
New state boundary decreed by Gowon

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Fighting appears to have slackened in the Ogoja Province where the federal government has probably committed at least two battalions. There is no evidence to substantiate federal claims that the key town of Ogoja has fallen, although federal troops may hold a few unimportant border villages.

The federal force's advantage in heavy weapons and armored cars has been somewhat offset by a growing shortage of ammunition, logistical difficulties, and heavy rains. Biafra's initial use of a B-26 bomber intimidated both the federal troops and natives but has had little more than a harassing effect.

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25X1 [redacted] one of the federal government's major objectives is to regain control over the minority tribal areas along the Cameroon border.

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[redacted]
On 12 July, Gowon demanded payment of oil revenues in full from Shell-BP, the major producer in Nigeria. This payment, normally made about the third week of July, is expected this year to total US \$15-17 million. The company is caught between federal and Biafran demands--Enugu controls the oilfields within Biafra, but Lagos is preventing the export of oil through its effective naval blockade of Biafra's ports. Furthermore, if Shell-BP does not deal with Ojukwu, he may take over the production facilities and try to arrange for their operation from other sources.

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[redacted]

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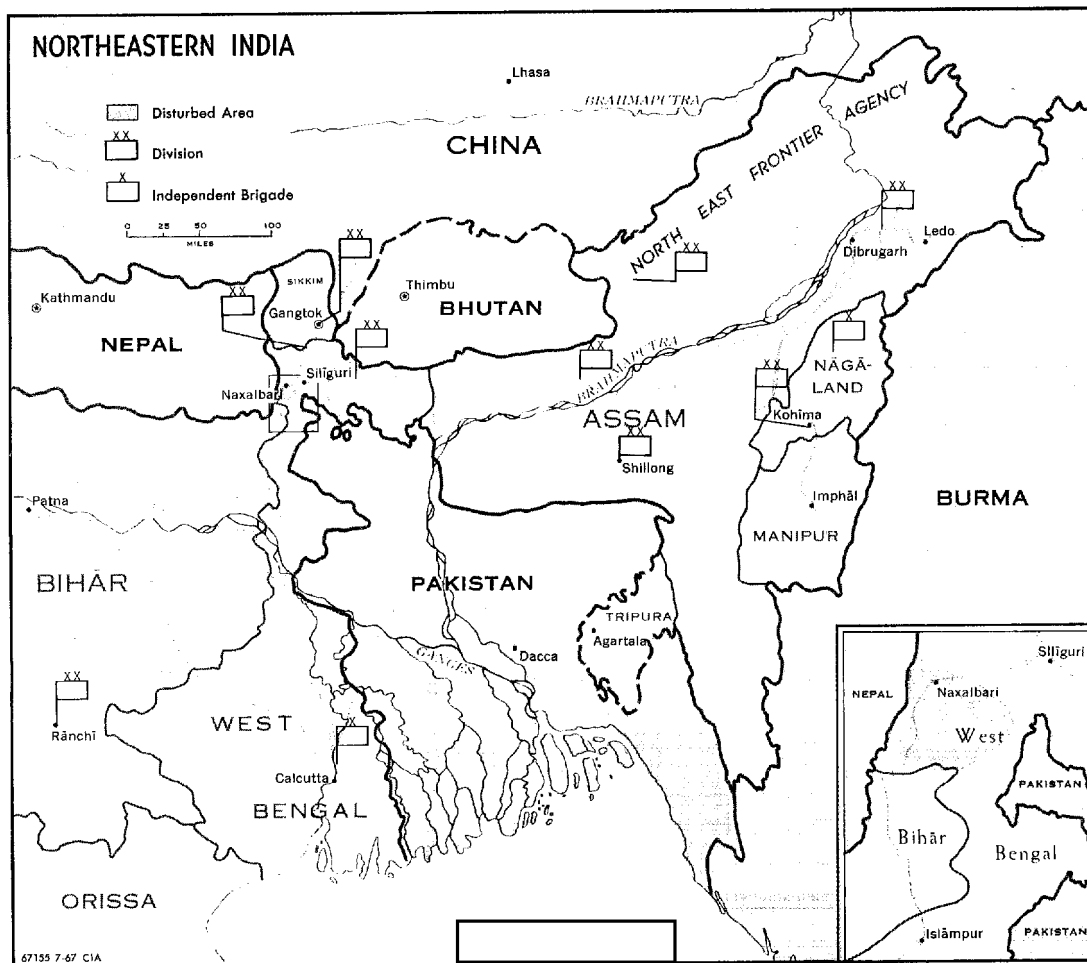
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INDIA'S TROUBLED WEST BENGAL

The West Bengal United Front (UF) coalition government, on the verge of collapse for several weeks, could be threatened by an intensified power struggle now going on between rival factions of the radical left Communists (CPI/L). A complex and fluid political situation has enabled the

UF to postpone its almost inevitable downfall.

The West Bengal government--headed by the leader of the state's rebel Congress organization, but including leftists of all shades--has been unable, and in some



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instances unwilling, to maintain law and order. It has, however, been highly popular with most of the people who were disillusioned with long years of inept Congress rule. Therefore, although the local Congress Party claims to have enough votes in the state legislature to topple the UF, it fears such a move could cause widespread popular unrest and unify the divided Communists.

The central government is reluctant to intervene for the same reason. New Delhi, however, is also concerned that India's defense establishment may be dangerously disrupted by a peasant and tribal revolt which CPI/L extremists incited in the Naxalbari area. Naxalbari is located in the narrow "Siliguri gap" which is vital to military communications with the remote Tibetan border areas (Sikkim, Bhutan, and Northeast Frontier Agency--NEFA) and the regions of Assam and Nagaland already troubled by tribal insurgency. About one third of all the Indian Army combat troops depend upon supply routes through the Naxalbari area.

New Delhi could be forced to intervene if recently author-

ized state police efforts to suppress the Naxalbari rebels fail. Although the Naxalbari group apparently has not received funds or material support from Communist China, the defection to their ranks of villagers specially trained in counter-insurgency by the government, may have enhanced their capabilities.

The situation in Calcutta is also potentially explosive and CPI/L extremists flaunting their commitment to "Mao Tse-tung's thoughts" could ignite violent clashes in this important port city.

CPI/L extremist elements--encouraged by the initial success of the Naxalbari revolt and by Chinese Communist propaganda--have stepped up their efforts to supplant the party's more moderate leadership and to force adoption of more revolutionary tactics. The old guard leadership, pressed by its UF partners to curb the extremist's disruptive activities, has retaliated by expelling some of the more irreconcilable elements and reportedly is considering a much larger purge. The CPI/L could, however, be forced by the extremists to withdraw from the UF if the party is to remain intact.

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WESTERN HEMISPHERE

Consultations among Latin American delegates to the United Nations have overshadowed but not eliminated planning for the meeting of foreign ministers of the Organization of American States. Most other international activities by the Latin Americans seem to have stopped during this period of concentration on the Middle East crisis.

The domestic scene in most countries was tranquil enough. Anti-Communist terrorism in Guatemala is a matter of increasing concern, and some Guatemalans have expressed fears that the government will not be able to control it. In Mexico, the opposition is claiming victory in the gubernatorial contest in Sonora and may lodge a formal protest against the ruling party's assertion that it has won.



25X1 [redacted] In Uruguay, however, President Gestido has decided to side with those members of his economic team who favor a "statist" solution to the nation's serious economic problems--a solution that is likely to lead to continued economic stagnation.

Brazil's President Costa e Silva appears to have dealt firmly with rumblings of dissatisfaction among members of the military "hard line," who reportedly were critical of the performances of some cabinet ministers. [redacted]

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PERUVIAN EXECUTIVE-LEGISLATIVE RELATIONS DETERIORATE

Relations are becoming increasingly strained between the Peruvian Congress and President Belaunde. Congress, dominated by the opposition, has in effect challenged the President's handling of the dispute with the International Petroleum Company (IPC) and his efforts to deal with the country's serious financial problem.

On 5 July, Congress approved a bill to expropriate the IPC's oil fields in northern Peru. American ownership of the fields has long been attacked by leftists and nationalists--even within the government coalition. The bill poses a political problem for Belaunde, who has sought an equitable solution to the long-standing dispute through negotiations with IPC representatives. Compensation for the expropriated properties as provided for under Article 29 of the Constitution could cost the government money at a time when Belaunde is wrestling with a financial crisis. This is a result of increased government spending for modern military equipment including supersonic aircraft, an unfavorable

trade balance, and a large budget deficit.

Ironically, Belaunde's problem is compounded by a congressional move to cancel recently increased taxes on imports. The tax increase, a major item in the government's economic program, has been under fire from members of the business community, who have been pressuring Congress for repeal.

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COMMUNIST PROSPECTS IN GUATEMALA

The government's sanction of terrorist tactics by the military and police in their efforts to destroy the Communist movement in Guatemala could over the long range create sympathy for it.

The government's approach has undeniably damaged the Communist apparatus and reduced the Communist threat for the short term. There is, however, growing concern over whether the government can control the counterterrorism it has unleashed. The scores of political assassinations each month, the almost daily discovery of mutilated bodies, kidnappings, and the threats and counterthreats contained in blacklists issued by the right-wing vigilante groups will almost inevitably have a serious political effect.

The Communist apparatus, decimated by government actions and rent by internal dissension,

is still carrying out "token" acts of violence and occasional retaliatory murder. Hard-line activists in the Rebel Armed Forces oppose the Communist Party's recent decision to postpone armed revolution in order to recruit and reorganize. They are looking to the Latin American Solidarity Conference, scheduled to be held in Havana from 28 July to 5 August, as a possible turning point for the "Guatemalan revolution." These militants hope Castro will give his support to a pro-Cuban movement separate from the Communist Party, like those Communist dissidents have formed in several other Latin American countries.

If support is given, or if the Communists can carry out their plan to regroup in western Guatemala and then capitalize on public concern over rightist counterterrorism, the government could be faced with further violence.

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